Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

Slower Labor Costs and Pricier Metals Help Stocks Soar

Moody's Capital Markets Research

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Credit Markets Review and Outlook *by John Lonski*

Slower Labor Costs and Pricier Metals Help Stocks Soar.

» FULL STORY PAGE 2

The Week Ahead

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

» FULL STORY PAGE 5

The Long View

Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "The average coupon of outstanding US IG bonds tops the group's recent yield by 112 bp, implying more refinancings," begin on page 16.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 104 bp. High Yield: After recent spread of 350 bp, it may approximate 400 bp by year-end 2017.
Defaults	US HY default rate: Compared to September 2017's 3.3%, Moody's Default and Ratings Analytics team forecasts that the US' trailing 12-month high-yield default rate will average 2.3% during 2018's third quarter.
Issuance	In 2016, US$-IG bond issuance grew by 5.6% to a record $1.412 trillion, while US$-priced high-yield bond issuance fell by -3.5% to $341 billion. For 2017, US$-denominated IG bond issuance may rise by 4.9% to a new zenith of $1.482 trillion, while US$-priced high-yield bond issuance may increase by 27.1% to $433 billion, or a tad under 2014's $435 billion record high.

» FULL STORY PAGE 16

Ratings Round-Up *by Njundu Sanneh*

Accentuating the Positive.

» FULL STORY PAGE 20

Market Data

Credit spreads, CDS movers, issuance.

» FULL STORY PAGE 22

Moody's Capital Markets Research *recent publications*

Links to commentaries on: China, yields/prices, debt/growth, Spain, upside surprise, bulls, less fear, Fed & BoJ, inflation, market triggers, hurricanes, data in sync, Harvey, inflation, yields, Korea, jobless rate, spreads, Saudi Arabia, lending, El Salvador, liquidity, CreditEdge, European credit.

» FULL STORY PAGE 26

Click here for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

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Credit Markets Review and Outlook

By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Slower Labor Costs and Pricier Metals Help Stocks Soar

To the benefit of credit quality, the world economy is humming. However, the pace of global expansion has yet to significantly boost inflation expectations or the real return demanded from credit market instruments. Thus, benchmark government bond yields remain low. For 10-year sovereign government bond yields, the US Treasury's recent 2.35% was well above Japan's 0.04%, Germany's 0.37%, the UK's 1.26%, and Canada's 1.95%.

The very low benchmark yields of most other advanced economies should limit the upside for US interest rates. Perhaps that expectation helps to explain why the 33.3% surge of US housing sector share prices since the end of 2016 has far outpaced the accompanying 14.6% increase by the market value of US common stock. The lift-off by housing-related stock prices is all the more remarkable given forthcoming reductions in Fed holdings of agency MBS securities, which could widen the yield spreads between mortgages and benchmark Treasuries.

Base metals price inflation stems from improving world economy

On November 1, Moody's industrial metals price index soared higher by 2.3% for its biggest one-day advance since January 31, 2017. The base metals price index's 25% year-over-year surge of the last 13 weeks stems from a notable expansion of global industrial activity. Nevertheless, the countrywide ISM and PMI indices of manufacturing activity have not been especially lively outside the US and Europe.

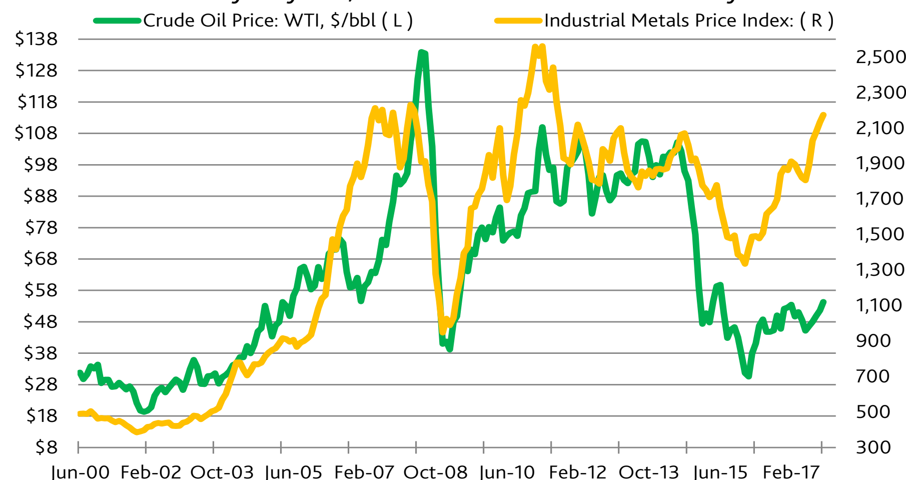
Since the mid-1980s, the annual percent changes of world economic growth (as measured by the IMF) and Moody's industrial metals price index show a relatively strong correlation of 0.80. In 2017, the base metals price index is expected to grow by 25% annually. For those previous 12 years since 1985 showing at least a 10% annual increase by the base metals price index, the median annual advances were 23% for the base metals price index and 4.6% for world economic growth.

The current global upturn has been true to script. When the base metals price index surged higher by 27.7% annually during 2010-2011, the world economy expanded by a rapid 4.8% annually, on average. Thereafter, the base metals price index shrank by -6.6% yearly during 2012-2016 and global growth slowed to a subpar 3.3% annually.

Despite what might be inferred from the historical record, the Bloomberg consensus foresees comparative annual rates of global growth of 3.5% for 2017 and 3.6% for 2018. However, if base metals prices maintain their blistering pace, world growth is likely to top October's consensus expectations.

Of additional interest is how the industrial metals price index is much closer to its high of the current recovery than is the price of crude oil. And that may be a good thing in view of how base metals price inflation tends to be positively correlated with corporate credit quality, while the price of crude oil correlates well with headline consumer price inflation. (Figure 1.)

Figure 1 : Compared to 2011's Annual Averages, Recent Industrial Metals Price Index Was Off by Only -4%, while Price of Crude Oil Was Down by -43%

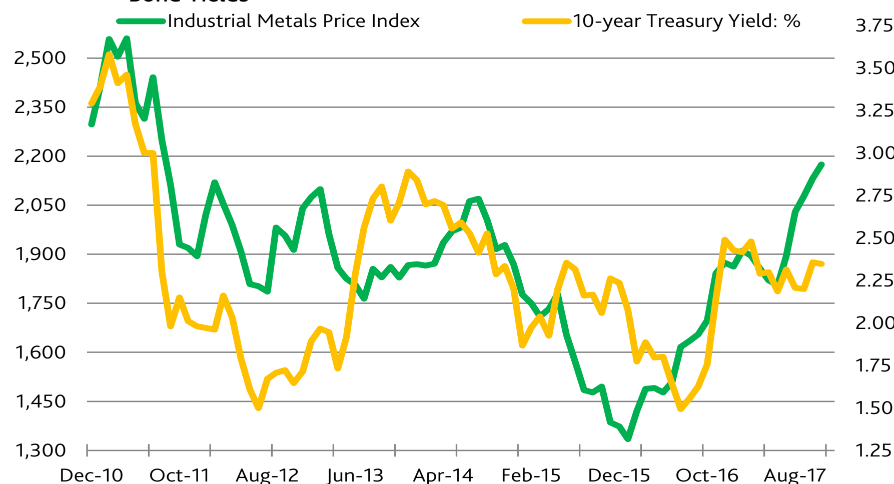


Credit Markets Review and Outlook

T-Bond yields may follow base metals prices higher

Moreover, Treasury bond yields are likely to ascend if the industrial metals price index extends its latest climb. In response to a -43% plunge by the base metals price index's moving three-month average from an April 2011 peak to a January 2016 bottom, the 10-year Treasury yield's three month average sank from 3.48% to 2.19%. Since January 2016, the base metals price index's three-month average has advanced by 56% which helped to lift the 10-year Treasury yield's three-month average to a recent 2.25%. (Figure 2.)

Figure 2: Further Climb by Industrial Metals Prices May Lead to Higher Treasury Bond Yields



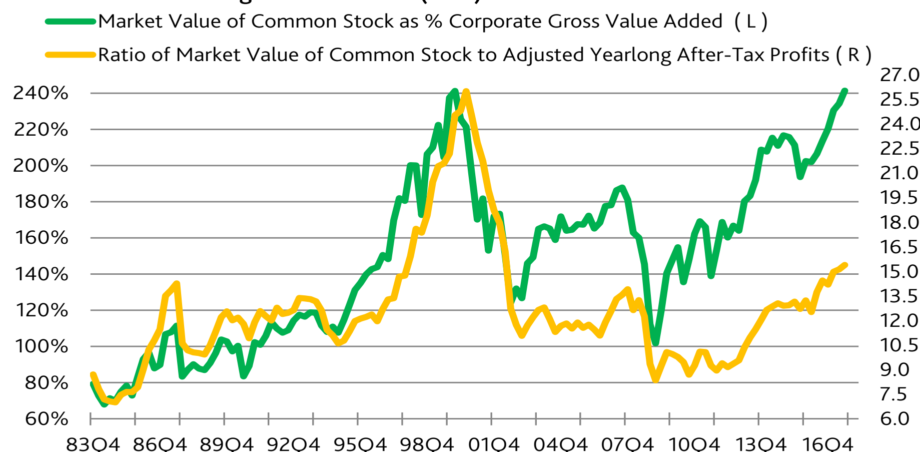
Market value of common stock reaches record high vis-a-vis net revenues

The ratio of the market value of US common stock to the moving yearlong average of adjusted after-tax profits is unlikely to soon approach its 22.4:1 average of 1999-2001 never mind its 26.0:1 record high of Q3-2000. As of Q2-2017, this version of an aggregate P:E ratio was at 15.1:1 and probably reached 15.4:1 in Q3-2017.

Adjusted after-tax profits exclude most extraordinary gains and losses, as well as changes in the market value of inventories. Moreover, this version of after-tax profits employs economic depreciation instead of accounting depreciation.

However, Q3-2017's ratio of the market value of US common stock to corporate gross-value-added (GVA) — a proxy for aggregate corporate net revenues — is expected to set a new zenith after matching Q4-1999 and Q1-2000's record high of 232% in Q2-2017. For the 20-years-ended Q2-2017, the median ratio of the market value of common stock to corporate GVA was 169%. A sudden return to that median would sink the market value of US common stock by -28%. Whether it be in terms of sales or profits, a richly priced equity market increases the risk of a plunge by share prices once bad news inevitably arrives. (Figure 3.)

Figure 3: Market Value of US Common Stock Sets Record High Vis-a-vis Proxy for Net Corporate Revenues (LHS), while Aggregate P:E Ratio Remains Well Under Range of 1999-2001 (RHS)



Credit Markets Review and Outlook

Mostly because of effective cost controls and persistently low interest rates, the broad equity market has outrun net revenues by a wide margin for some time. During the 10-years-ended Q2-2017, the average annual rates of growth were 5.2% for the market value of common equity and 2.8% for corporate GVA.

Modest sales growth curbs employee compensation

In terms of year-to-year growth rates, both corporate and nonfinancial-corporate GVA show a strong 0.85 correlation with nominal GDP. Thus, nominal GDP's yearly growth rate offers useful insight regarding the performance of net corporate revenues, where corporate revenues are net of sales of raw and intermediate materials.

Nominal GDP growth has downshifted considerably over time. Comparing the 20-years-ended Q3-1997 with the 20-years-ended Q3-2017 showed a deceleration by nominal GDP's average annualized growth rate from 7.4% to 4.2%. In turn, the 20-year average annualized growth rate of corporate GVA slowed from the 7.3% of the span-ended Q2-1997 to the 3.9% of the span-ended Q2-2017, while on a comparably measured basis, nonfinancial-corporate GVA decelerated from 7.1% to 3.7%, respectively.

The secular deceleration by corporate GVA helped to explain why the 20-year average annualized growth rate of pretax profits from current production ebbed from the 7.3% of the span-ended Q2-1997 to the 4.6% of the span-ended Q2-2017. Nevertheless, profits outperformed sales during the 20-years-ended Q2-2017 largely because of a more pronounced slowdown by the 20-year average annualized growth rate of corporate employee compensation from the 7.3% of the span-ended Q2-1997 to the 3.5% of the span-ended Q2-2017.

Believe it or not, despite a lower unemployment rate and faster growth by the average hourly wage, the year-to-year increase by corporate employee compensation slowed from the 2.9% of Q2-2017 and the 3.7% of Q3-2016 to the 2.8% of Q3-2017. For the 12-months-ended September 2017, corporate employee compensation rose by only 2.4% annually, where the latter was the slowest such increase since the 2.1% of yearlong 2010. During the previous compensation cycle, the yearlong growth rate of corporate employee compensation did not slow to 2.4% until the year-ended September 2008, by which time the Great Recession was well underway.

Never before has corporate employee compensation grown so slowly so late in an economic recovery. The atypically slow growth of employee compensation has been of considerable benefit to profits and margins. Unless revenues accelerate considerably, businesses are likely to keep tight control over labor costs. In fact, during the 12-months-ended September 2017, the unit labor costs of US nonfarm businesses contracted by -0.2% annually, which ought to be of a highly unusual late-cycle benefit to profit margins. The business cycle upturn has legs.

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The Week Ahead – US, Europe, Asia-Pacific

THE US

From Moody's Analytics - Economy.com and the Moody's Capital Markets Research Group
(Updates are made on Mondays.)

Summary, November 6: The upcoming economic calendar is light. We look for initial claims to have risen from 229,000 to 230,000 in the week ending November 4, keeping them among the lowest since the 1970s. Though modest, this would be only the second increase in the past six weeks and leave new filings near their lows for the expansion. New filings in states affected by the recent hurricanes remain above their pre-hurricane levels. Further declines in these states should limit any increases in initial claims.

We expect the University of Michigan's consumer confidence index to have risen slightly in November, according to the preliminary report. A number of consumer confidence measures have improved recently, and while they don't warrant any change to our near-term forecast for consumer spending, they do remove some downside risk.

The Fed's Senior Loan Officer Survey will give us an update on lending standards. The net percent of banks tightening lending standards on commercial and industrial loans is an input into one of our probability of recession models. The odds of a recession occurring in the next 12 months remain extremely low.

THURSDAY, NOVEMBER 2

Jobless claims (week ended October 21; 8:30 a.m. EDT)

Forecast: 230,000
We forecast that initial jobless claims fell from 233,000 to 230,000 in the week ending October 28. There still appears to be some hurricane-related effect as new filings in those states affected by the storms remain above those seen before the storms. Therefore, we look for further declines in these states, pulling initial claims lower.

FRIDAY, NOVEMBER 3

Employment situation (October; 8:30 a.m. EDT)

Forecast: 313,000 (employment)
Forecast: 4.4% (unemployment rate)
Forecast: 0.2% (average hourly earnings)
We look for employment to have risen by 313,000 in October following a 33,000 decline in September. Excluding the hurricanes, it appears that job growth would still have been below trend in September. We are still not concerned. From time to time, there are identifiable quirks with monthly employment that have nothing to do with hurricanes. For example, depending on when in the month the payroll reference week occurs (early or late), it can bias the first print of employment in one direction or the other.

We believe the weather disruptions faded and rebuilding and clean-up should boost employment in October. The regional employment data confirm that the storms were very disruptive to job growth in Texas and Florida. Leisure/hospitality was hit hard in Florida as the hurricane prevented many from not working. These jobs will return in October, boosting employment.

We look for the unemployment rate to have risen from 4.2% to 4.4%. Average hourly earnings rose 0.5% between August and September, but the gain is very misleading. Average hourly earnings aren't adjusted for the composition of employment, therefore the large drop in leisure/hospitality employment—typically low-paying jobs—boosted average hourly earnings.

There was a solid increase in average hourly earnings for construction workers. This isn't surprising given the cleanup following Harvey and Irma, which boosted demand for construction workers. Upward pressure on construction workers' average hourly earnings should remain as rebuilding kicks into higher gear.

There is also a calendar quirk in September that would have biased average hourly earnings higher even without the hurricanes. The composition effect likely boosted average hourly earnings growth in July between 0.1 and 0.2 percentage point. Our past work suggests that the calendar quirk adds 0.15 percentage point to average hourly earnings growth.

As the impact of the storms fades in October, average hourly earnings will soften. We look for a 0.2% gain in average hourly earnings in October.

The forecast for employment is subject to revision as some labor market data will be released ahead of the employment situation data.

International trade (September; 10:00 a.m. EDT)

Forecast: -$43.2 billion
The nominal trade deficit likely widened from $42.4 billion in August to $43.2 billion in September. According to advance estimates, the nominal goods deficit widened from a revised $63.3 billion in August (previously $62.9 billion) to $64.1 billion in September. Nominal exports rose 0.7%, while imports increased 0.9%. We look for only a small improvement in the services surplus between August and September.

ISM nonmanufacturing survey (October; 10:00 a.m. EDT)

Forecast: 57.8
We expect the ISM nonmanufacturing survey fell 2 points in October to 57.8. This would reverse less than half of the increase in September. However, September's gain was partially attributed to a large increase in supplier deliveries, which was weather-related. With these disruptions fading, the suppliers delivery index should fall in October, pulling the composite index down with it.

Monday, November 6

Business confidence (week ended October 27; 10:00 a.m. EST)

Forecast: N/A
Global business sentiment has softened in recent weeks and is as low as it has been since before last year's U.S. presidential election. The softer readings are evident with regard to sales, pricing, hiring and even investment. Sentiment has turned lower across the globe, but particularly in the U.S. Recent natural disasters in the U.S. may be impacting the survey results, and if so, the survey responses should quickly improve in coming weeks as the rebuilding kicks in. Nonetheless, the weakening in sentiment bears close watching. It is also noteworthy that sentiment as measured by the trade group for small businesses, the National Federation of Independent Businesses, has shown a similar weakening. What hasn't changed is that businesses are increasingly fixated on regulatory and legal issues, as about one-half of businesses say they are their largest concern.

The four-week moving average in our global business confidence index inched up from 27.5 to 27.8 in the week ended October 27.

Tuesday, November 7

No major economic releases scheduled

Wednesday, November 8

No major economic releases scheduled

Thursday, November 9

Jobless claims (week ended November 4; 8:30 a.m. EST)

Forecast: 230,000

We look for initial claims for unemployment insurance benefits to have risen from 229,000 to 230,000 in the week ended November 4. Though modest, this would be only the second increase in the past six weeks and leave new filings near their lows for the expansion. New filings in states affected by the recent hurricanes remain above their relative to their pre-hurricane levels. Further declines in these states should limit any increases in initial claims. The four-week moving average is forecast to have fallen from 232,500 to 229,000, a new cyclical low.

Friday, November 10

University of Michigan survey (November-prelim; 10:00 a.m. EST)

Forecast: 101.2

We expect the University of Michigan's consumer confidence index to have risen from 100.7 in October to 101.2 in November, according to the preliminary survey. Rising stock prices and the prospect for corporate and personal income tax cuts should support consumer sentiment in November. There is also a tendency for the preliminary survey to increase in November, having done so every year but three since 2001. Potentially limiting the gain in sentiment in November are gasoline prices, which remain higher than prior to the hurricanes and up on a year-ago basis.

One-year inflation expectations fell in October and the potential catalysts include declines in retail gasoline prices and weak growth in food prices. Long-term inflation expectations remain among the lowest this cycle but haven't worried the Fed too much.

EUROPE

By the Dismal (Europe) staff in London and Prague
(Updates are made on Mondays.)

Summary, November 6: Following the past week's barrage of data for the euro zone and the U.K., the next week will shed light on Europe's industrial performance at the end of the third quarter. We are confident that the figures will round off another solid stanza for factory growth in most of the Continent's major countries, and even better is that we expect that the fast momentum was carried over into the fourth quarter. In the euro zone, the standout will likely be Germany, though France's numbers are also set to come in strong. True, we are penciling in a 0.7% m/m decline in the industrial production headline in the area's major economy, but this is only expected following the punchy 2.6% m/m increase in August; despite the fall, the yearly rate should still read at a solid 4.4%, which is much higher than the 2.4% average for the past 12 months. If our forecast is right, over the quarter as a whole production will have risen by 1.1% q/q, which is an impressive result following an already-robust 1.9% expansion in the second quarter. And that's including construction, which has somewhat underperformed the manufacturing sector in recent months. Excluding construction, factory growth is expected to have jumped by 1.4% q/q in the third quarter, following a 1.7% rise in the second, with September's rise in energy production on the back of the below-average temperatures providing the main boost to the final headline.

The story is somewhat different in France, where industrial production surprised on the downside and fell by 0.3% q/q in August, following a 0.8% increase in July. We expect that output growth will have mean-reverted in September, rising by 0.9% m/m and pushing the yearly rate to a sturdy 3.4%, though we caution that risks are strongly tilted even further to the upside. Output in the volatile pharmaceuticals sector should have risen in September following a 13.2% decline in August, while we are also expecting a jump in machinery and equipment production following a 1.4% drop in the previous month. Meanwhile, we expect that a surge in energy production will have driven up the headline; already, consumer spending data showed that energy demand rose strongly over the month

on the back of September's below-average temperatures, so we are expecting this number to be reflected in the energy production numbers. Over the quarter as a whole, then, we think that industrial production expanded by 0.6% q/q in France in the third quarter, building on a strong 1.1% rise in the previous stanza.

It is still a little early to be confident about specific figures for the fourth quarter, but leading data all point to a further gain of momentum, which is rather impressive given the upbeat results for the previous two quarters. The euro zone's manufacturing PMI for October climbed further to an impressive 58.5, with new orders and output both rising and with substantial work backlogs continuing to support a steady increase in employment. For France and Germany, the PMIs suggest that industrial production will grow briskly, by around 4% to 5% y/y in the final quarter.

Across the Channel, we also expect production in the U.K. to have jumped in the third quarter. Unlike in France and Germany, though, this should represent a mean-reversion from a weak first half of the year, not a further gain of momentum. Preliminary GDP figures already suggest that production rose by a strong 1% over the quarter as a whole, so we are penciling in a 0.3% m/m increase in September, which should build on a 0.1% rise in August. The main boost to the headline is expected to come from mining and quarrying, which fell by 2% q/q in August because of rigs closing up for maintenance. To that we add that pharmaceuticals are also expected to rise, but should be partially offset by a mean-reversion in transport equipment.

THURSDAY, NOVEMBER 2

Germany: Unemployment (October; 9:00 a.m. GMT)

Germany's seasonally adjusted unemployment rate likely remained at 5.6% in October, after it fell to this record low in September. German businesses remain confident in the country's future expansion, increasing their labour force, despite the uncertainties and geopolitical tensions. Details of the flash Markit PMI for October showed that new work continued to expand strongly, and the pace of increase was one of the fastest over the past 6½ years. However, the unemployment rate is likely bottoming out and it is expected to increase somewhat next year because of the vast inflow of refugees during the second half of 2015, some of whom will be entering the German labour force. Moreover, the euro has been gradually gaining against the dollar, which will likely weigh on German exports outside of the euro area.

FRIDAY, NOVEMBER 3

No major releases are scheduled for this day.

MONDAY, NOVEMBER 6

No major releases are scheduled for this day.

TUESDAY, NOVEMBER 7

Germany: Industrial Production (September; 9:00 a.m. GMT)

German industrial production likely retreated at the end of the third quarter, falling 0.7% m/m, after adding 2.6% in August. In year-ago terms the rate of increase is expected to have remained unchanged at around 4.5%. Robust demand likely supported production. German manufacturing orders surged 3.6% m/m in August. Both domestic and foreign orders rose strongly. In year-ago terms, factory orders climbed further, adding 7.9% thanks to improvements mainly in foreign demand, while domestic orders increased at a slightly slower pace than in July. The Markit manufacturing PMI surged to 60.6, the highest level since April 2011, and signaled continued strong momentum at the end of the third quarter. However, the outlook remains clouded as the

uncertainty caused by the Brexit negotiations and appreciating euro could curb the German manufacturing sector.

Italy: Retail Sales (September; 9:00 a.m. GMT)

Italy's retail sales likely reversed August's drop, rising by 0.2% m/m in September. Improving sentiment indicators suggest that household consumption should have contributed to overall growth in the third quarter. Growing consumer confidence and an improving labour market outlook may support domestic demand. While the unemployment rate remained unchanged at 11.1% in August, forward-looking indicators suggest some improvements in coming months. This could reduce labour market slack, particularly elevated hidden unemployment—underemployed part-time workers and people out of work but not counted in official statistics because they are not actively looking for work. Still, subdued wage growth could drag on household spending, and it will take time for wages to rebound and boost household spending further.

Euro Zone: Retail Sales (September; 10:00 a.m. GMT)

Euro zone retail sales likely increased by 0.5% m/m in September, reversing a diametrically opposed decline in August The already-available preliminary country data for the area's major economies have been rather upbeat: Spending on goods rose by 0.9% m/m in France, by 0.5% in Germany, and by 0.4% in Spain. Figures for Portugal were also solid, showing that sales jumped by 0.8% m/m at the end of the quarter. We are still waiting on data for Italy, the Netherlands, Austria and Belgium; they should come in mixed, with small declines in Italy and the Netherlands offsetting much better results for Belgium and Austria, as well as Finland. The story is gloomier for the smaller economies, though, with sales falling sharply in Lithuania, Latvia, Estonia and Greece. We don't expect that to taint the area's aggregate results, though.

Across sectors, food sales likely did the most to boost the headline, though energy sales are also expected to have jumped, mainly because of September's below-average temperatures. Clothing sales should have remained steady on the back of the poor weather, while sales of other core goods, especially household appliances, should have recovered somewhat. Our forecast is in line with the area's Markit retail PMI, which shows that sales growth across the euro zone rebounded in September; the PMI data are not seasonally adjusted, however, and have repeatedly overstated growth in retail over the past year.

WEDNESDAY, NOVEMBER 8

Spain: Industrial Production (September; 8:05 a.m. GMT)

We expect that industrial production in Spain gained 0.8% m/m in September, a bit below the 1% increase in August but firmly above the dismal results in June and July. Equipment manufacturing and nondurable consumer goods should remain the highlights of the September report, while we expect a mild recovery in energy output. The near-term outlook appears promising as new orders edged up for the second consecutive month and stock of purchases advanced at record pace in October, according to business surveys. Nevertheless, we see a sizable risk in the medium term due to the political tensions in Catalonia, which may set back industry in the region and dampen confidence in Spain. Worsening sentiment can eat away at consumption and investment propensity, hurting GDP growth Prolonged political uncertainty in Catalonia may shave around 0.3 to 1 percentage point off growth next year.

THURSDAY, NOVEMBER 9

Germany: Foreign Trade (September; 8:00 a.m. GMT)

Germany's trade surplus likely narrowed to €21 billion in September after increasing to €21.7 billion in the previous month, but it was higher compared with the €20.6 billion in September 2016. Continued global geopolitical tensions, worries over the U.K. exit from the EU, and the shift towards protectionism in the U.S. will likely drag on foreign demand for German products this year. Moreover, the euro has been gradually gaining against the dollar, strengthening to $1.19 on average

in September, 6.3% higher than in the same month last year, which likely weighed on German exports. At the same time, strengthening economic activity is boosting imports. German GDP grew 0.6% q/q in the second quarter of 2017. In year-ago terms, the growth rate accelerated to 2.1%, the fastest since early 2014. Net exports contracted in the second quarter because of a steep increase in imports, while exports rose to a much lesser extent and a similar development is expected for the third quarter.

FRIDAY, NOVEMBER 10

France: Industrial Production (September; 8:00 a.m. GMT)

France's industrial production rose by 0.9% m/m in September, following a 0.3% decline in August. This should have pushed the yearly rate to a sturdy 3.4%, though we caution that risks are strongly tilted even further to the upside. Output in the volatile pharmaceuticals sector should have risen in September following a 13.2% decline in August, while we are also expecting a jump in machinery and equipment production following a 1.4% decline in the previous month. Soaring energy production did the most to drive up the headline; already, consumer spending data showed that energy demand rose during the month on the back of September's below-average temperatures, so we look for these readings to be reflected in the energy production numbers. Over the quarter as a whole, then, we think that industrial production rose by 0.6% q/q in the third quarter, building on a strong 1.1% rise in the previous stanza.

Italy: Industrial Production (September; 9:00 a.m. GMT)

Italy's industrial output likely continued to grow in September. High-frequency indicators suggest the recovery in manufacturing remained robust. Business sentiment climbed to more than a 10-year high in October, and the manufacturing PMI remained close to a 6½-year peak. Strong exports and reviving domestic demand powered the industrial production. After averaging 0.4% growth in the first half of this year, Italy's real GDP expanded 0.4% in the third quarter, suggesting that real GDP growth for this year may be the strongest since 2010. Although we are optimistic about the strengthening economy, there is a need for caution. The strengthening euro, which has appreciated by 14% since the beginning of 2017, and weak credit growth because of a large share of bad loans, poses some risk to the short-term outlook.

U.K.: Industrial Production (September; 9:30 a.m. GMT)

We forecast that U.K. industrial production rose by 0.3% in September, building on August's 0.1% increase. This should push the yearly rate in production to a strong 2%, up from 1.6% in August, higher than the 1.5% average over the past year. Across sectors, we expect that mining and quarrying largely boosted the headline, mean-reverting from a 2% fall in the previous month on the back of oil rigs closing up for pre-winter maintenance. Already, Bloomberg's loading estimates for Brent and Fortier oil fields point to a 1.5% m/m rise in output in the sector. Some offset should come from energy production, which should retreat somewhat given that September's average temperatures in the U.K. returned to their seasonal norm.

We expect the performance of the manufacturing sector to be mainly about mean-reversions. Output in the volatile pharmaceuticals sector rose sharply in August, so it should edge down in September, though this will likely be offset by a decline in transport equipment production. Leading data from the Society of Motor Manufacturers already suggest that car production in September fell by around 4.1% because of a plunge in domestic sales. Machinery and equipment production should have remained stable.

Over the quarter as a whole, production is expected to have expanded by 0.9% q/q, reversing the second stanza's 0.3% decline. We are less upbeat about fourth quarter performance, though, since we still expect that the lower pound will fail to provide much stimulus to factory growth.

ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific economics team of Moody's Analytics

China's headline CPI has cooled with lower food prices, but core inflation has been rising

The economic data calendar is full of top-shelf releases. China's headline consumer price inflation has decelerated thanks to lower food prices. Core inflation pressures have been rising, albeit slowly. These trends are likely to reverse in coming months. Food inflation will rebound as polluting farms are shut down. Core inflation will peak as the housing market cools and producer price inflation fades.

In other data, China's trade surplus fell sharply in September on account of a surge in imports. Higher commodity prices led to higher import costs for coal, copper, crude oil and iron ore. Given the sharp drop in global commodity prices in October, China's import bill likely fell in the month. Tech exports are doing well, with mobile phone shipments likely to surge as the holiday season nears. Credit growth in China remains buoyant, as the government has been tacitly allowing more lending to boost economic growth.

Third quarter GDP data continue to arrive. Indonesia's GDP growth likely ticked up a notch to 5.1% y/y in the September quarter following the June quarter's below-expectation 5% expansion. Bank Indonesia has been on the front foot trying to lift growth with consecutive interest rate reductions in August and September. GDP growth looks set to comfortably hit the government's 5.1% to 5.4% target range for this year. Hong Kong's economic momentum remained healthy in the third quarter. The buoyant housing market continued lifting household sentiment and spending. Trade flows are similarly picking up, thanks to the global tech upswing and continued commodity demand from China.

India's industrial production remains uneven and below potential. Supply bottlenecks crimp production and last year's demonetisation is an added drag. The ill effects of demonetisation should fade towards the end of 2017.

The Reserve Bank of Australia will keep the cash rate steady at 1.5% at its November policy meeting. The cash rate has been at this record low since August 2016, and we do not expect rate hikes to come into view until mid-2018. If the Australian dollar stays strong, interest rate hikes will be pushed out further.

THURSDAY, NOVEMBER 2

Australia – Foreign Trade – September

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: A$230 million
Australia's monthly trade surplus likely narrowed to A$230 million in September, from A$990 million in August. Mining receipts likely took a hit in September from lower iron ore spot prices, which were down around 20% from their late-August peak, while coking coal prices have fallen by 10%. Capital imports probably kept softening in September. There has been a sharp pullback in telecommunication imports, which is likely related to the National Broadband Network rollout. These factors will keep downward pressure on the trade surplus into the December quarter, and keep the net export contribution to GDP growth muted compared with the June quarter.

Japan – Consumer Confidence – October

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 44.1
Japan's consumer confidence is improving despite recent risk aversion related to North Korea's missile testing. The overall consumer confidence index rose to 43.9 on a seasonally adjusted basis in September. We expect consumer confidence rose a further 0.2 point in October to 44.1, but there's considerable uncertainty around the forecast given that the survey took place midmonth while general

elections were towards the end of the month. Inflation expectations are also expected to drop a little; the yen has appreciated in recent weeks while oil prices have eased compared with a few months ago. This will keep price pressures at bay.

FRIDAY, NOVEMBER 3

Australia – Retail Sales – September

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 0.5%
Australian retail trade likely partially recovered in September and rose 0.5% m/m, following the 0.6% slump in August, its largest contraction since March 2013. Annual retail trade growth slowed from 3.5% in July to 2.1% in August. Prior to August's slump, retail trade was running at 3.2% y/y. The 8.9% q/q spike in the September quarter electricity costs could be partly to blame for the August slump in retail trade; for households, higher energy prices operate like a tax, as energy usage can typically be only marginally reduced. September retail trade data will show third quarter retail volumes, which will firm our forecast for consumption contribution to GDP growth. That contribution is tracking at -0.1 to -0.2 percentage point at the moment.

Malaysia – Foreign Trade – September

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: MYR8.1 billion
Malaysia's monthly trade surplus likely narrowed to MYR8.1 billion in September from MYR9.8 billion in August. Export growth likely cooled from its lofty 21.6% y/y expansion in August and 31.2% gain in July. Electronics are driving the solid growth, especially for smartphones being made available in late 2017. The electronics and electrical export category is the largest single component in merchandise exports and registered double-digit growth in August for an eighth straight month. Forward indicators including the Nikkei-Markit manufacturing PMI suggest Malaysian manufacturing will cool heading into 2018, likely a symptom of global tech demand passing its peak, and this should temper export growth.

MONDAY, NOVEMBER 6

No major economic indicators are scheduled for release.

TUESDAY, NOVEMBER 7

Indonesia – GDP – 2017Q3

Time: Unknown
Forecast: 5.1%
Indonesia's GDP growth likely ticked up a notch to 5.1% y/y in the September quarter following the June quarter's disappointing 5% expansion. Bank Indonesia has been on the front foot trying to lift growth with consecutive interest rate reductions in August and September to bolster stubbornly soft consumption, which has been the economy's laggard. Exports have done surprisingly well, thanks to temporary bounces in crude oil prices and buoyancy in global demand, especially from key trading partner China. GDP growth looks set to comfortably hit the government's 5.1% to 5.4% target range for this year, although it is well short of President Joko Widodo's target of 7% when he first entered office three years ago. Potential growth has been hurt by infrastructure bottlenecks and the private sector being crowded out, weakening productivity.

Australia – Monetary Policy – November

Time: 2:30 p.m. AEDT (3:30 a.m. GMT)
Forecast: 1.5%
The Reserve Bank of Australia will keep the cash rate steady at 1.5% at its November policy meeting. The cash rate has been at this record low since August 2016 and we do not expect rate hikes to come into view until mid-2018. If the Australian dollar stays strong, interest rate hikes will be pushed out further. The central bank is comfortable on the sidelines, waiting for economic conditions to improve.

The RBA will be closely watching labour market developments; employment growth has improved, especially for full-time positions over 2017, and underemployment has started to edge lower from its record high. Tighter labour market conditions are expected to translate to gradually stronger income growth heading into 2018. Also, private investment appears to be picking up, a sign that the long-awaited boost in capital expenditure is starting to occur, as the drag from falling mining investment fades.

Taiwan – Consumer Price Index – October

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 0.8%
Taiwan's consumer price index likely ticked up 0.8% y/y in October, after a 0.5% rise in the prior month. Price pressures have been subdued, as a firm Taiwan dollar and muted demand-side pressures have helped keep a lid on inflation. Although demand-side pressures are likely to pick up as labour market conditions improve, consumer price inflation is expected to stay relatively mild in coming months.

Taiwan – Foreign Trade – October

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: US$5.8 billion
Taiwan's trade surplus likely fell to US$5.8 billion in October, after US$6.7 billion in the prior month. Taiwan's exports have surged 14.3% y/y in the year to date to September, up from a 6.1% fall in the same period last year. Exports of electronic components and information and communications technology products have been especially strong, up 15.5% and 15.2% y/y, respectively, in the year to date. Despite souring cross-strait relations, exports to mainland China remain strong, up 22% y/y in the year to date to September. Although external demand is likely to stay relatively firm, export growth is expected to cool as a low base effect fades.

WEDNESDAY, NOVEMBER 8

Thailand – Monetary Policy – November

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)
Forecast: 1.5%
Despite government pressure for the Bank of Thailand to cut interest rates to relieve upwards pressure on the baht, sluggish domestic demand and mild inflation are expected to keep the policy interest rate on hold at 1.5% at the November monetary policy meeting. Consumer price inflation has averaged just 0.6% y/y in the year to date to September, comfortably below the Bank of Thailand's target range of 1% to 4%. A mild rate hike cycle is likely next year as price pressures gradually edge up.

China – Foreign Trade – October

Time: Unknown
Forecast: US$35 billion
China's trade surplus fell sharply in September on account of a surge in imports. Higher commodity prices led to higher import costs for coal, copper, crude oil and iron ore. Given the sharp drop in global commodity prices in October, China's import bill likely fell during the month. Tech exports continue to do well, with mobile phone shipments likely to surge as the holiday season nears. The trade surplus likely rebounded to US$35 billion in October from US$28.6 billion in September.

THURSDAY, NOVEMBER 9

New Zealand – Monetary Policy – November

Time: 7:00 a.m. AEDT (Wednesday, 8:00 p.m. GMT)
Forecast: 1.75%
The Reserve Bank of New Zealand will keep the policy rate steady at 1.75% at its November monetary policy meeting. The external sector is doing well thanks to a sustained uptick of global prices in the all-important dairy sector, raising export receipts and providing a broader income lift. The RBNZ doesn't

need to be in a hurry to normalize rates, as inflation is forecast to only gradually creep higher through the 1% to 3% target band. We expect the first interest rate hike around mid-2018. The newly elected centre-left coalition government led by Jacinda Ardern brings uncertainty, with recently announced policies appearing to favour environmental sustainability over economic growth. It's too early to assess the impact of the proposal to cut immigration by 30,000 per year on consumption. In 2016 household spending surged following the record 71,000 arrivals that year.

Japan – Machinery Orders – September

Time: 10:50 a.m. AEDT (Wednesday, 11:50 p.m. GMT)
Forecast: -1.7%
Japan's core-machinery orders are volatile, and the sharp rises in August (3.4%) and July (8%) point to orders declining in September by 1.7% m/m. Export-facing large manufacturers have benefited from the yen's depreciation. This is especially so for tech companies involved in the production of semiconductors, batteries, and other integrated circuits. The recent upswing in the tech cycle has aided demand in these industries. However, orders are expected to fade from here on after most of the uptake in capital machinery for 2017 is complete.

Malaysia – Industrial Production – September

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: 4.9%
Malaysian industrial production probably cooled in September to 4.9% y/y following a 6.8% gain in August and 6% rise in July. The August acceleration was driven by the more volatile mining category, while manufacturing remained strong at 7.6% after an 8% gain in July due to buoyancy in electronics demand, mainly offshore. Forward indicators suggest cooling in the near term from foreign manufacturing demand, which should start to weigh on soaring exports. The Nikkei-Markit manufacturing PMI dipped to 49.9 in September, from 50.4 in August and below the neutral 50 that separates expansion from contraction. New business was down for a fifth straight month amid weaker domestic and overseas demand. It was surprising that firms continued to increase employment, according to the survey, with the lull in demand. If demand cools further, employment growth likely will not be maintained.

Australia – Housing Finance – September

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: -0.5%
Australian owner-occupied housing finance likely contracted by 0.5% m/m in September, after a 1% jump in August. The August rise was due to increased incentives to first-home buyers. In original terms, the number of first-home buyer commitments as a percentage of total owner-occupied housing finance commitments rose to 17.2% in August from 16.6% in July. We expect the higher contribution from first-home buyers to fade over coming months as those who were on the cusp of entering the property market are now able to do so. Other housing market indicators show the national housing market has cooled, particularly in the most heated markets of Sydney and to a lesser extent Melbourne. Lending to owner-occupiers and investors has become more restricted on the back of increased regulation; this will affect demand for housing finance through the remainder of 2017.

China – Consumer Price Index – October

Time: 12:30 p.m. AEDT (1:30 a.m. GMT)
Forecast: 1.4%
Consumer price inflation has decelerated thanks to lower food prices. Core inflation pressures have been rising, albeit slowly. These trends are likely to reverse in coming months. Food inflation will rebound as polluting farms are shut down. Core inflation will peak as the housing market cools and producer price inflation fades. CPI growth likely decelerated to 1.4% y/y in October.

China – Producer Price Index – October

Time: 12:30 p.m. AEDT (1:30 a.m. GMT)
Forecast: 5.8%

Producer price inflation reaccelerated because of higher commodity prices, but this likely reversed in October. The sharp drop in key commodity prices recently, such as by 20% for spot iron ore in late September, will cut producers' input costs. The slowing housing market will remove a key support to raw material prices. Producer price inflation likely decelerated to 5.8% in October, from 6.9% in September.

FRIDAY, NOVEMBER 10

China – Monetary Aggregates – October

Time: Unknown
Forecast: 9%
Credit growth in China remains buoyant, as the government tacitly allowed more lending to boost economic growth ahead of the Congress. Credit has gone mostly into housing, as higher prices draw in more homebuyers and as developers roll loans. China's M2 money supply likely grew 9% y/y in October, down from the 9.2% pace in September.

Philippines – Industrial Production – September

Time: Unknown
Forecast: 4.1%
Industrial production in the Philippines likely grew 4.1% y/y in September, after a 2.7% lift in August. Although the Philippines has a small export-manufacturing sector compared with other economies in the region, industrial production has still benefited from the upswing in global demand. Exports of electronics and components are up 10.9% y/y in the year to August, after a 1.8% rise in the same period last year. Firm external demand along with strong investment, which is driving up production of products such as cement, are expected to continue supporting industrial production.

Japan – Industry Activity Indexes – September

Time: 3:30 p.m. AEDT (4:30 a.m. GMT)
Forecast: -0.1%
Japan's industrial activity indexes likely declined 0.1% in September following August's 0.2% decline. However, year-ago increases will likely continue, confirming that momentum has improved in 2017. Fragile wage growth will weigh on overall spending, but business services will continue to expand thanks to a broad-based increase in activity throughout 2017. Rising fuel costs also pose a downside risk. If wage growth doesn't accelerate in line with the recent pickup in inflation—core consumer prices rose 0.7% y/y in September—spending on discretionary items could ebb. The net impact will eventually depend on whether wage growth can accelerate for the remainder of the year.

Hong Kong – GDP – 2017Q3

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)
Forecast: 0.6%
Hong Kong's economic momentum remained healthy in the third quarter. The buoyant housing market continued lifting household sentiment and spending. Trade flows are similarly picking up, thanks to the global tech upswing and commodity demand from China. GDP likely grew 0.6% in the third quarter, after a 1% gain in the second.

India – Industrial Production – September

Time: 11:20 p.m. AEDT (12:20 p.m. GMT)
Forecast: 3.8%
India's industrial production remains uneven despite a pickup to 4.3% y/y in August. Production in a large economy such as India's should be expanding at nearly a double-digit pace, but India is far from achieving that. In September likely reached 3.8%. Supply bottlenecks crimp production. Last year's demonetisation has also caused sentiment to fall across India. The economy has lost steam in 2017 despite a pickup in external demand. Corporate India remains on the sidelines by not increasing investment. However, as the ill effects of demonetisation fade, a pickup in production should occur towards year's end.

The Long View

The US: The average coupon of outstanding US IG bonds tops the group's recent yield by 112 bp, implying more refinancings

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
November 2, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 104 bp is far under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 350 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8%, the US high-yield default rate has since eased to the 3.3% of September. Moody's Default and Ratings Analytics team expects the default rate will average 2.3% in Q3-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 2016's US$-denominated bond issuance rose by 5.5% annually for IG, to $1.411 trillion and dropped by -3.5% to $341 billion for high yield. Across broad rating categories, 2016's newly rated bank loan programs from high-yield issuers advanced by 45% to $98 billion for Baa, rose by 2% to $212 billion for Ba, and soared by 43% to $208 billion for programs graded less than Ba.

Q4-2015's worldwide offerings of corporate bonds showed annual percent declines of -8.7% for IG and -51.4% for high-yield, wherein US$-denominated offerings dipped by +1.3% for IG and plunged by -45.1% for high yield.

Q1-2016's worldwide offerings of corporate bonds showed annual percent declines of -4.9% for IG and -51.4% for high-yield, wherein US$-denominated offerings rose by +1.3% from Q1-2015 for IG, but plunged by -45.1% annually for high yield.

Q2-2016's worldwide offerings of corporate bonds showed an annual increase of +6.3% for IG and an annual drop of -5.2% for high-yield, wherein US$-denominated offerings dipped by -2.2% for IG and sank by -6.3% for high yield.

Third-quarter 2016's worldwide offerings of corporate bonds showed an annual advances of +19.5% for IG and +42.8% for high-yield, wherein US$-denominated offerings soared higher by +34.1% for IG and by +46.4% for high yield.

Fourth-quarter 2016's worldwide offerings of corporate bonds showed annual percent changes of -10.2% for IG and +24.9% for high-yield, wherein US$-denominated offerings fell by -8.5% for IG and advanced by +24.9% for high yield.

First-quarter 2017's worldwide offerings of corporate bonds showed annual percent increases of +7.7% for IG and +110.6% for high-yield, wherein US$-denominated offerings advanced by +17.1% for IG and by +98.3% for high yield.

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -6.3% for IG and an increase of +8.3% for high-yield, wherein US$-denominated offerings fell by -6.4% for IG and grew by +5.8% for high yield.

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -2.8% for IG and an increase of +6.0% for high-yield, wherein US$-denominated offerings dipped by -1.3% for IG and grew by +3.8% for high yield.

The Long View

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by -7.8% for high yield (to $426 billion). In 2017, worldwide corporate bond offerings may rise by 3.3% annually for IG and may advance by 32.2% for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions and divestitures in order to better cope with the US's subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

US ECONOMIC OUTLOOK

The mid-point of the range for fed funds should finish 2017 no greater than 1.375%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.45% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Tomas Holinka and Barbara Teixeira Araujo of Moody's Analytics

Eurozone (November 2, 2017)

The second half of 2017 is looking extremely good for the euro zone economy. Real GDP expanded 0.6% q/q in the third quarter of 2017, slightly above our expectation of 0.5%, and down only slightly from an upwardly revised 0.7% growth in the second quarter (previously 0.6%). On a year-ago basis, growth also picked up strongly, accelerating to 2.5% from 2.3% in the second quarter. Though the GDP release did not include the expenditure details for growth, we expect that household consumption likely powered this quarter's expansion, supported by falling unemployment, while investment should also have jumped. By contrast, a strong euro likely weighed on net exports, notably in Germany and France. We have country numbers for only Spain and France, but they both surprised strongly on the upside; Spain's economy grew by a hefty 0.8% q/q, while France's GDP jumped by 0.5%, above our expectation of 0.4%. Looking into the fourth quarter, survey data suggest the third quarter momentum will be sustained in the near term.

Diminishing political risks should provide relief for the broader economy. After elections in the Netherlands, France and Germany passed without incident, European integrity is intact for now and politicians can focus on the economy. Although the Italian general election in May 2018 may increase nervousness, we don't expect this will spill over to the markets. Nevertheless, the latest presidential and general elections showed that populism is on the rise and that Europe must find a way to defeat it. Future steps should address migration, terrorism, income equality, and remedies for social exclusion, or else populists could score big victories in the next elections.

Besides the growth figures, Tuesday brought other good news. The euro zone unemployment rate fell to 8.9%—its lowest since January 2009—from a revised 9% in August (previously 9.1%). The reasons underlying the decline over the month were favorable. The number of unemployed fell by a solid 96,000, on the heels of a 947,000 drop since the start of the year. Furthermore, the details showed a broad-based improvement across countries; the jobless rate remained stable or fell everywhere except in Austria. The standouts were France and Spain, whose number of unemployed plunged by 23,000 each. Improving economic conditions around the monetary bloc, labour market reforms, increasing employment, and participation rates in Germany and the Netherlands, and a strengthening industrial base and competitiveness in Spain, Portugal and Ireland will keep euro zone unemployment trending downward over the next six to nine months.

An improving labour market with rising employment will push wages higher eventually, but as of now core inflation remains far away from target. That the euro area's inflation headline fell to 1.4% in October was expected, notably as base effects related to oil prices are set to depress inflation throughout the rest of the year. But the standout detail from Tuesday's CPI report was a fall in the core rate, which we didn't see coming. Core inflation fell to 0.9%, from 1.1% in September as both services inflation and nonenergy goods inflation dipped. We expect that subdued core inflation will likely prevail for some time, but we caution that the cyclical trend remains up. The latest result will nonetheless mean that the European Central Bank was right last week to reinforce its dovish bias, and we don't expect it to tighten monetary conditions much further in 2018.

In late October, the ECB delivered on its promise and announced how it plans to unwind its quantitative easing programme. While the bank's asset purchases will continue at €60 billion a month until December, they will be cut in half to €30 billion from January and will last until September 2018, or beyond if necessary. The size of the reduction was bigger than our expectation that purchases would be lowered to €40 billion, but the bank left its programme open-ended and said it could boost stimulus if conditions warrant. We thus do not expect an abrupt halt to QE in September.

UK (November 2, 2017)
Third quarter GDP growth in the U.K. came in above our and the consensus expectations, making us change our call for the Bank of England's first rate hike to next week from early next year. At its September meeting, the bank's monetary policy committee had claimed that evidence was pointing to slack being absorbed a little faster than expected, which could in turn underpin a rate hike in coming months. The bank was at the time forecasting growth of 0.3% q/q in the third quarter, so at 0.4% the headline read above expectations, giving the bank the green light to start tapering. Markets' implied probability of a rate hike by November 2 is now at 88%.

But in our view, to think that the economy is healthy enough to warrant such a move is misleading. With the yearly expansion stuck at a mere 1.5%, the U.K. is set to again be the slowest-growing G-7 economy in the third quarter, while other indicators of economic momentum are also lagging. First, leading data regarding investment remain in the doldrums, especially since there has been no actual progress in Brexit negotiations. Second, the outlook for the services sector remains clouded as inflation and wage data show that real disposable income will fall throughout the rest of the year before slightly rebounding in 2018. True, services production managed to remain steady at 0.4% q/q in the third quarter, but we caution that the main boost to services output came from business services and finance, and we don't expect this strength to carry on until the end of the year. We are already penciling in a sharp reversion in retail sales in October and November.

To that we add that a rate hike now would weigh on the already-clouded outlook for consumer credit. Banks' capital ratios are set to be raised again in the coming months, while the BoE already announced the scrapping of the Term for Funding Scheme by February next year. Both measures are expected to drive up consumers' borrowing costs sharply, while banks already announced a reduction in the supply of credit over the coming quarters. So, with real wages dropping, credit becoming scarcer and more expensive, and with house prices slowing sharply or even falling in some regions, households' will to buy should remain muted over the coming months.

Elsewhere, manufacturing production is set to at least partially mean-revert in the fourth quarter, and so is mining and quarrying, implying that the 1% q/q rise in production likely won't be repeated. And we see little that would lift the depressed performance of the construction sector; demand for housing and real estate remains downbeat, particularly as Brexit woes are preventing households and companies from engaging in major investment decisions.

Taken together, we think that the U.K. economy is far too fragile to warrant tightening, though we still expect a majority of policymakers to vote for it next week. We caution, though, that we forecast this to be a one-off move, only reversing the cut it made shortly after the Brexit decision was announced in June 2016. Inflation is set to return to target next year, easing the pressure on the committee, while wages are unlikely to strongly pick up and uncertainty is expected to remain high, weighing on investment. Meanwhile, little support will come from the government, as we expect it to stick to its plans for tight fiscal policy in 2018.

ASIA PACIFIC

By Veasna Kong and the Asia-Pacific Staff of Moody's Analytics
November 2, 2017

The BoJ

With core inflation remaining well below the Bank of Japan's 2% target, the BoJ remains firmly on the sidelines and will be the last central bank to taper its large-scale asset purchase program. The key developments at October's monetary policy meeting were the BoJ's lower inflation forecast and marginally stronger GDP growth forecasts.

GDP growth is now expected to come in at 1.9% in fiscal 2017, compared with the previous projection of 1.8%. Meanwhile, inflation forecasts were bumped down: 0.8% for fiscal 2017 and 1.4% for fiscal 2018. This was down from 1.1% and 1.5% previously. Forecasts for fiscal 2019 are 1.8%, which excludes the impact of the planned tax hike. The lower inflation forecasts are nothing of concern, and only confirms our belief that monetary stimulus will continue well into 2018 and 2019.

The BoJ is willing to overshoot its 2% inflation target until prices "stay above the target in a stable manner". However, underlying inflation pressures are weak, and inflation is unlikely to rise above 1%, let alone hit the central bank's 2% target. The economy remains fragile at best, despite improvements in 2017. Any disturbance or tightening of policy would likely send the economy back into recession, so the BoJ is unlikely to make any rash moves. However, its yield curve control policy does give scope to adjust the shape of the curve. We expect tapering to occur in 2018, and the communication around this would be key.

The BoJ kept the monthly annualised purchase target of ¥80 trillion unchanged. The BoJ will maintain yield curve control. This will target a short-term policy rate, which is the interest rate of -0.1% in the policy rate balance. The long-term interest rate target will be the 10-year JGB, so that its yield remains at around 0%. The BoJ is willing to purchase JGBs at a fixed rate if their rates spikes, and will purchase commercial paper and corporate bonds to increase its holdings at an annual pace of ¥2.2 trillion and ¥3.2 trillion, respectively.

Overall, this has been a fortuitous year for the BoJ, which has ridden the wave of global sentiment for the U.S. dollar. This caused the yen to depreciate and exports to rise throughout 2017. If the yen remains at the current level, the BoJ might just see some wage growth. However, a sustained increase in wages remains unlikely, and the 2% inflation target is still way out of reach.

Ratings Round-Up

By Njundu Sanneh

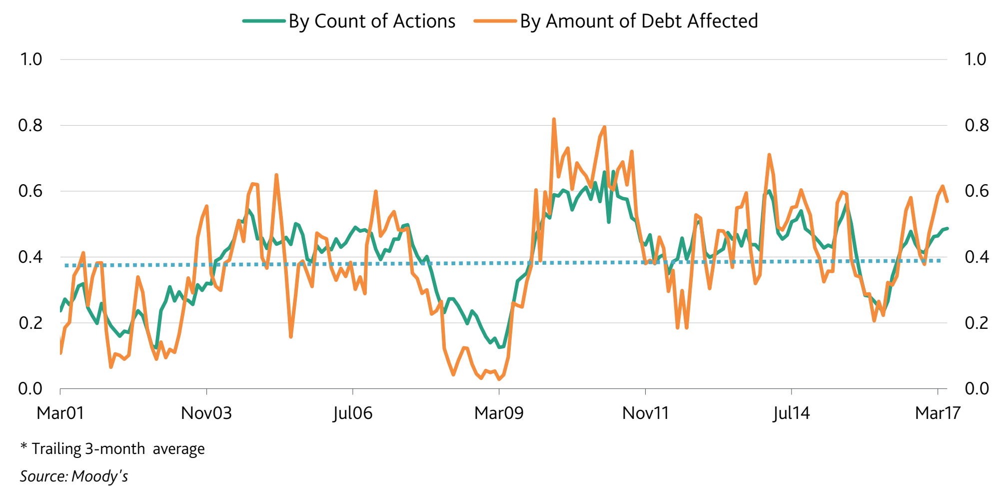
Accentuating the Positive

Rating changes for the past week emphasized the positive, with six of the 10 US and five of the six European rating changes upgrades. The energy sector and wireline telecom were among the more notable US sectors. The gains in in energy prices are helping energy firms deleverage and improve credit metrics. Energy firms comprised three of the ten US firms, with upgrades for Andeavor Logistic's LP, a subsidiary of Andeavor, and Range Resources Corporation. Loews Corporation, however, experienced a negative rating change with several of its insurance units downgraded. Merger and acquisition activity was responsible for the wireline telecom rating revisions, with CenturyLink, Inc. (the acquiring firm) downgraded and Level Three Communications (the target) upgraded. Mattel, the toy maker, and Edelman Financial Center were among the notable downgrades in the US.

Europe's rating change activity was all speculative grade with the great majority upgrades. Notable names included ABH Financial (ALFA), a Russian bank, upgraded with $2.8 billion of debt affected and Telefonaktiebolaget LM Ericsson, a telecom equipment maker, with $2.2 billion of debt affected.

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

Ratings Round-Up

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
10/25/17	EDELMAN FINANCIAL CENTER, LLC (THE)	Financial	LTCFR		D	B1	B2	SG
10/26/17	ANDEAVOR - Andeavor Logistics LP	Industrial	SrUnsec/LTCFR/PDR	4,370	U	Ba3	Ba2	SG
10/26/17	RANGE RESOURCES CORPORATION	Industrial	SrUnsec/SrSub/LTCFR/PDR	2,871	U	B1	Ba3	SG
10/26/17	TI FLUID SYSTEMS LIMITED - TI Group Automotive Systems L.L.C.	Industrial	SrUnsec/LTCFR/PDR	450	U	Caa1	B3	SG
10/27/17	ALBEMARLE CORPORATION	Industrial	SrUnsec/CP	1,761	U	Baa3	Baa2	IG
10/27/17	MATTEL, INC.	Industrial	SrUnsec/CP	2,150	D	Baa2	Baa3	IG
10/30/17	CDRH PARENT, INC	Industrial	SrSec/BCF/LTCFr/PDR		D	B2	B3	SG
10/31/17	CENTURYLINK, INC.	Industrial	SrUnsec/LTCFR/PDR	16,834	D	Ba1	Ba2	SG
10/31/17	LEVEL 3 COMMUNICATIONS, INC.	Industrial	SrUnsec	11,830	U	B2	B1	SG
10/31/17	LOEWS CORPORATION	Industrial	IFSR		U	A3	A2	IG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

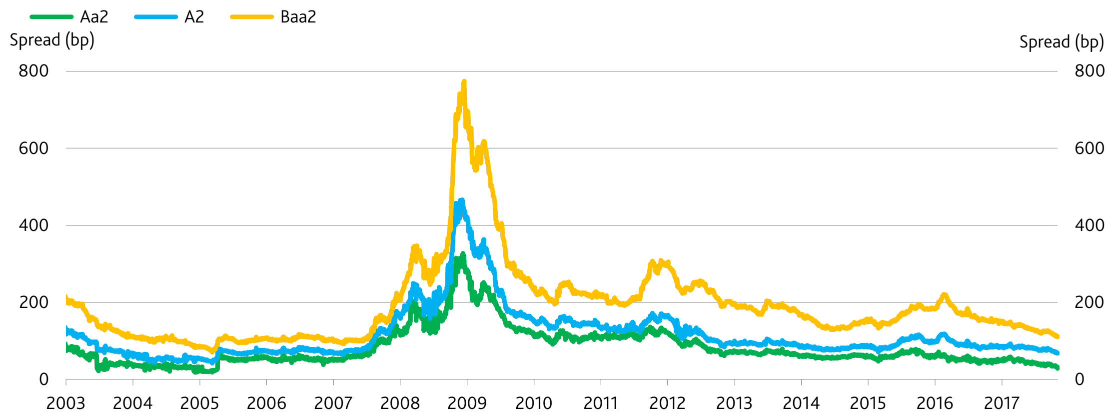
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
10/25/17	INEOS STYROLUTION HOLDING LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba3	Ba2	SG	GERMANY
10/27/17	FRIGOGLASS SAIC	Industrial	LTCFR/PDR		U	Caa3	Caa1	SG	GREECE
10/27/17	BANCA IFIS S.P.A. - Interbanca S.p.A.	Financial	LTD		U	B2	Ba1	SG	ITALY
10/31/17	KASPI BANK JSC	Financial	LTD		U	Baa3	Baa2	SG	KAZAKHSTAN
10/31/17	ABH FINANCIAL (ALFA)	Financial	SrUnsec/LTD	2,739	U	Ba2	Ba1	SG	RUSSIA
10/25/17	TELEFONAKTIEBOLAGET LM ERICSSON	Industrial	SrUnsec/LTCFR/PDR/MTN	2,158	D	Ba1	Ba2	SG	SWEDEN

Source: Moody's

Market Data

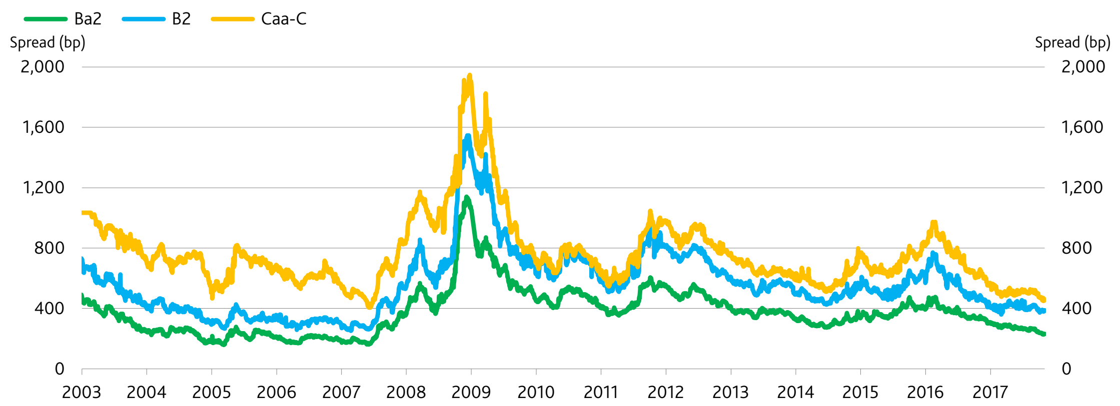
Spreads

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (October 25, 2017 – November 1, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 1	Oct. 25	Senior Ratings
Chesapeake Energy Corporation	Caa2	Ca	Caa2
Bank of America Corporation	A3	Baa1	Baa1
Ally Financial Inc.	Ba1	Ba2	Ba3
McDonald's Corporation	Aa1	Aa2	Baa1
International Business Machines Corporation	Aa3	A1	A1
Time Warner Inc.	A3	Baa1	Baa2
Amazon.com, Inc.	A3	Baa1	Baa1
HSBC Finance Corporation	Aaa	Aa1	Baa1
Berkshire Hathaway Inc.	Baa1	Baa2	Aa2
Mondelez International, Inc.	Baa1	Baa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 1	Oct. 25	Senior Ratings
Exxon Mobil Corporation	A2	Aa2	Aaa
Aetna Inc.	A2	Aa2	Baa2
Rite Aid Corporation	C	Caa2	B3
Aetna Health Holdings, LLC	A1	Aa1	Baa2
Cardinal Health, Inc.	Baa2	A3	Baa2
Expedia, Inc.	Baa3	Baa1	Ba1
Mattel, Inc.	B3	B1	Baa3
Lubrizol Corporation (The)	A1	Aa2	Aa2
Apple Inc.	Aa2	Aa1	Aa1
Microsoft Corporation	Aa2	Aa1	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 1	Oct. 25	Spread Diff
Nine West Holdings, Inc.	Ca	12,220	8,283	3,937
Penney (J.C.) Corporation, Inc.	B3	1,349	999	350
Sears Roebuck Acceptance Corp.	Caa3	3,956	3,756	200
Sears Holdings Corp.	Caa3	3,518	3,340	178
Mattel, Inc.	Baa3	319	173	146
Rite Aid Corporation	B3	833	726	107
Pitney Bowes Inc.	Ba1	351	255	96
AK Steel Corporation	B3	434	346	88
R.R. Donnelley & Sons Company	B2	670	584	86
Neiman Marcus Group LTD LLC	Caa3	1,408	1,348	60

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 1	Oct. 25	Spread Diff
MBIA Inc.	Ba1	922	1,150	-228
Windstream Services, LLC	B2	1,617	1,746	-129
MBIA Insurance Corporation	Caa2	903	1,016	-114
Parker Drilling Company	Caa1	869	918	-49
Chesapeake Energy Corporation	Caa2	687	732	-45
Diamond Offshore Drilling, Inc.	Ba3	250	279	-29
Unisys Corporation	B3	579	607	-28
Weatherford International, LLC (Delaware)	Caa1	500	528	-27
Murphy Oil Corporation	Ba3	136	162	-26
CalAtlantic Group, Inc.	Ba2	73	99	-25

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (October 25, 2017 – November 1, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 1	Oct. 25	Senior Ratings
Old Mutual Plc	Aa2	A2	Ba1
Societe Generale	Aa2	A1	A2
Lloyds Bank Plc	Aa3	A2	Aa3
BNP Paribas	Aa2	A1	Aa3
Credit Agricole Corporate and Investment Bank	Aa2	A1	A1
Swiss Reinsurance Company Ltd	Aa3	A2	Aa3
Caixa Geral de Depositos, S.A.	Ba1	Ba3	B1
BNP Paribas Fortis SA/NV	Aa2	A1	A2
Spain, Government of	Baa2	Baa3	Baa2
The Royal Bank of Scotland Group plc	Baa3	Ba1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 1	Oct. 25	Senior Ratings
Galapagos Holding S.A.	Ca	Caa2	Caa2
Abbey National Treasury Services plc	Baa1	A3	Aa3
Finland, Government of	Baa2	Baa1	Aa1
Bayer AG	Aa3	Aa2	A3
Lafarge SA	Aa3	Aa2	Baa2
Ensco plc	Caa2	Caa1	B3
Coca-Cola HBC Finance B.V.	A2	A1	Baa1
Astaldi S.p.A.	C	Ca	B3
Alliance & Leicester plc	A1	Aa3	A3
Stagecoach Group Plc	Ba1	Baa3	Baa2

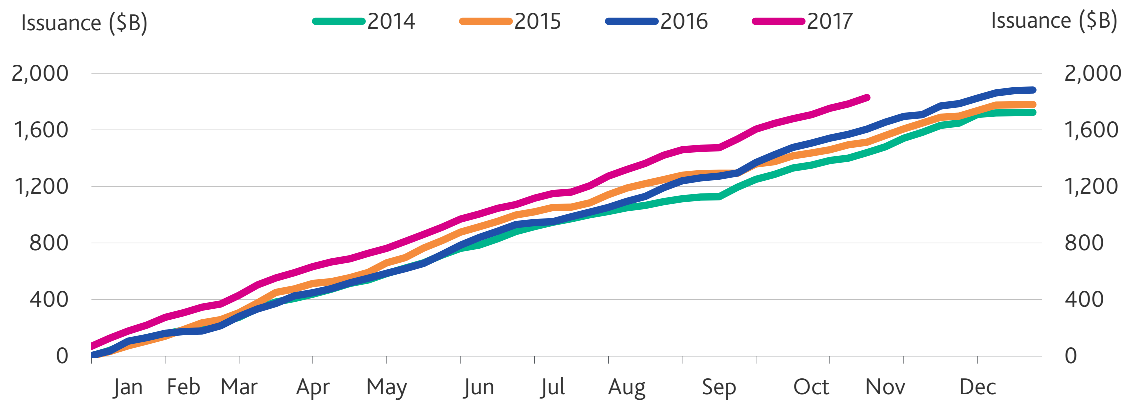
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 1	Oct. 25	Spread Diff
Ensco plc	B3	584	524	60
Astaldi S.p.A.	B3	812	770	42
Nokia Oyj	Ba1	104	86	18
Alpha Bank AE	Caa3	1,307	1,293	13
National Bank of Greece S.A.	Caa3	1,302	1,289	13
SEB	Aa3	31	27	4
Vedanta Resources plc	B3	428	425	4
Brisa Concessao Rodoviaria S.A.	Ba1	73	70	4
Finland, Government of	Aa1	53	50	3
DNB Bank ASA	Aa2	28	27	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 1	Oct. 25	Spread Diff
Boparan Finance plc	B2	618	713	-95
PizzaExpress Financing 1 plc	Caa1	813	858	-45
Caixa Geral de Depositos, S.A.	B1	107	137	-30
Stena AB	B3	469	498	-29
Matalan Finance plc	Caa2	357	383	-26
Galapagos Holding S.A.	Caa2	706	730	-25
Greece, Government of	Caa2	429	450	-21
Wm Morrison Supermarkets plc	Baa3	78	99	-21
Altice Finco S.A.	B3	237	257	-20
Banco Comercial Portugues, S.A.	B1	117	133	-16

Source: Moody's, CMA

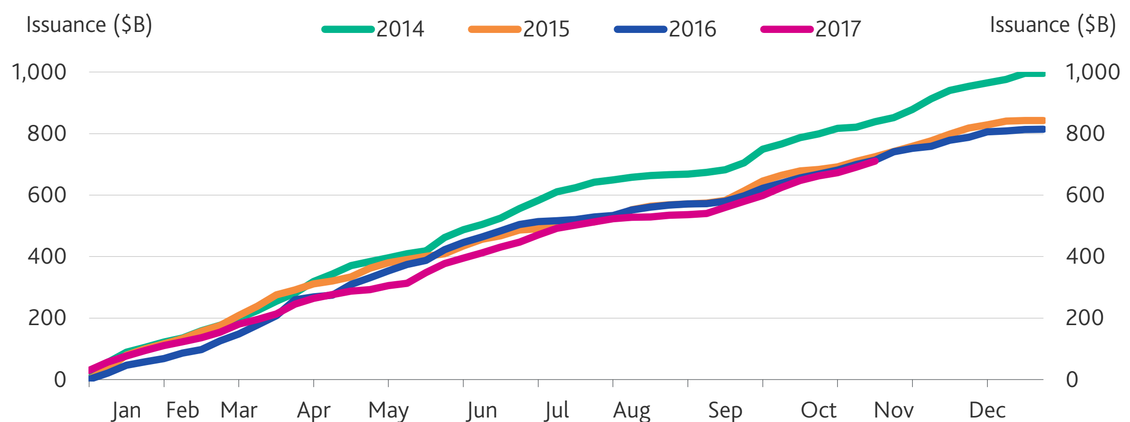
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	38.022	7.365	46.361
Year-to-Date	1,306.918	381.533	1,829.945

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.161	9.570	20.017
Year-to-Date	579.111	95.046	710.724

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1098869

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